

INTERNATIONAL MONETARY FUND

BOLIVIA

Staff Assessment of Qualification for the Multilateral Debt Relief Initiative

Prepared by the Western Hemisphere Department
(In consultation with other Departments)

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Bolivia reached the completion point under the enhanced HIPC initiative on June 8, 2001.

Macroeconomic performance

- Status of Fund arrangement.** The Stand-By Arrangement was approved on April 2, 2003, for a 12-month period, in an amount equivalent to SDR 85.75 million (50 percent of quota). It was extended and/or augmented on April 1, 2004; June 10, 2004; December 27, 2004; March 30, 2005; and April 8, 2005. The sixth review of the SBA-supported program was completed on October 31, 2005, when the Executive Board also granted the authorities' request to reduce the size of the arrangement by SDR 25.72 million, to SDR 145.78 million (85 percent of quota). The authorities have indicated that they intend to treat the arrangement henceforth as precautionary. Available information suggests that the quantitative performance criteria for end-December 2005 are likely to be observed. In particular, the fiscal deficit is projected to remain well below the program target of 3.5 percent of GDP. Work is underway in connection with the structural conditionality for the seventh and last program review, to be completed by the SBA expiration date of March 31, 2006.
- Recent macroeconomic developments.** Since the HIPC completion point, increasing hydrocarbons production and exports have contributed to a pick-up in real GDP growth, which is expected to remain around 4 percent in 2005, and to a substantial strengthening in the external current account, which has shifted into a sizable surplus. Following a widening in 2001–02, the fiscal deficit has been substantially reduced under the SBA-supported program, and inflation remains in single digits. Official reserves currently stand at an all-time high of US\$1.5 billion and there has been a significant improvement during 2005 in the maturity structure and currency composition of the domestic public debt. The information available to the staff indicates that Bolivia is current on its external payments obligations, including to the World Bank.
- Summary assessment.** Given the completion of the sixth review under the SBA on October 31, 2005, and continued good macroeconomic performance, the staff is of the view

that there has been no substantial deterioration compared to completion point, and that the related criterion to qualify for MDRI debt relief is met.

Implementation of the poverty reduction strategy

4. **Background.** Bolivia's poverty reduction strategy was formally articulated in the 2001 PRSP. It set out poverty reduction policies and targets for the period through 2015, based on the National Dialogue of 2000. The strategy incorporated objectives in social, economic, and political areas, to be achieved through investment programs in infrastructure, education, and health, as well as state reform, promotion of private sector participation, and deepening of democracy. The thrust of the 2001 strategy remains relevant. While there have been no formal updates of the strategy, it has been discussed in the context of the National Dialogue. In the letter of intent for the sixth review under the SBA, the interim government indicated that it intended to finalize a document, in coordination with donors, laying out the outcomes of the most recent National Dialogue, concluded in December 2004.¹ This would be an input for an update of Bolivia's poverty reduction strategy by the next government. The three main presidential candidates support a strong poverty-reduction focus in designing economic and social policies.

5. **Recent developments.** In recent years, the implementation of poverty reducing policies has been broadly satisfactory and in line with the strategy set out in the 2001 PRSP, with improvements in key poverty-related indicators. Significant progress was made in increasing access to social services and improving the quality of health and education. This has been attributable in part to increased budgetary allocations to the social sectors—including pro-poor spending of over 12 percent of GDP annually in the last five years, financed in part by HIPC resources—and better prioritization of projects in these sectors. There has also been improvement in infrastructure (including roads), identified as important in the 2001 PRSP.

6. **Prospects.** Bolivia's progress in improving social services and outcomes means that there is a good chance that many of the MDGs will be met, or very close to being met, by 2015. If current trends continue, the goals of universal primary education and gender equality in primary education are likely to be met. Goals on reducing child mortality; improving maternal health; combating HIV/AIDS, malaria and other diseases; and increasing access to safe drinking water could also be reached.

7. **Summary assessment.** Given the satisfactory implementation of poverty reduction policies, staff is of the view that current performance shows no substantial deterioration compared to completion point, and that the related criterion to qualify for MDRI debt relief is met.

¹ The National Dialogue involved 300 community organizations representing more than 100,000 people.

Public expenditure management system

8. **Recent developments.** Based on the most recent HIPC AAP report (HIPC Assessment and Action Plan, 2004), Bolivia's PEM system shows some deterioration since the June 2001 HIPC completion point, although there are some areas of improvement. The report indicates that there are several weaknesses in the PEM system, as Bolivia only met four of the 16 expenditure management benchmarks in the 2004 HIPC assessment down from five out of the 15 benchmarks in 2001. However, the 2004 assessment involves more and better information—in particular at the sub-national level—and thus mainly reflects changes in AAP coverage rather than deterioration of the PEM system per se. Bolivia still faces similar challenges today as did in 2001 in the areas of budget classification, formulation, internal controls and external audit; and still lacks an automatic budget tagging mechanism to track local government spending.

9. **Authorities' policies.** The authorities have been taking steps to address these weaknesses, including efforts to improve the tracking of poverty related spending in line with the World Bank and IMF recommendations. In 2004, the government agreed to, and is implementing, a series of initiatives to improve the country's public finance systems, following the recommendations of the June 2004 Country Financial Accountability Assessment and August 2004 HIPC Assessment and Action Plan. In addition, the authorities are taking steps to address the recently identified weaknesses in the information and management system (SIGMA), including the integration of a functional classification. An improved information and management system would then be gradually expanded to subnational governments. As a prior action for the sixth review under the SBA, the government recently submitted to congress a draft law that would establish, inter alia, a framework to improve budget formulation, including a medium-term budget framework; and minimum reporting requirements—including economic and functional classifications based on international standards that will play a critical role in improving the capacity to track poverty-reducing spending.

10. **Summary assessment.** Staff is of the view that the criterion on the quality of PEM systems to qualify for MDRI debt relief is met.

Other

11. **Provision of information to the Fund.** The information provided by Bolivia is of adequate quality, timeliness, and coverage to allow the conduct of Fund surveillance. The authorities have provided full and timely information to the Fund since April 2003 as specified in the technical memoranda of understanding for the Stand-by Arrangement.

12. **Payments to the IMF.** Bolivia is current on its financial obligations to the Fund.

Overall assessment

13. Staff is of the view that all three criteria are met, and recommends that the Board determine that Bolivia qualifies for immediate debt relief under the MDRI.

Bolivia: Selected Macroeconomic Indicators, 2000-2005

(Annual percentage change, unless otherwise indicated)

	2000	2001	2002	2003	2004	Proj. 2005
Real GDP	2.5	1.7	2.4	2.8	3.6	3.9
Inflation (eop)	3.4	0.9	2.4	3.9	4.6	4.2
Real effective exchange rate	-0.5	0.0	-1.9	-12.4	-7.3	1.2
Broad money	-2.0	-2.0	-10.1	-1.1	-1.6	13.3
Overall fiscal balance including grants (in percent of GDP)	-3.7	-6.8	-8.8	-7.9	-5.5	-3.5
Current account balance including grants	-5.3	-3.4	-4.1	0.6	3.2	2.1
Total foreign exchange reserves (in months of imports)	7.0	6.5	5.2	5.5	5.2	5.5

Bolivia: Public and Publicly Guaranteed (PPG) External Debt and Debt Relief 1/

(in millions of U.S. dollars; unless otherwise indicated)

	2004 (Est.)	2005 (Proj.)	2006 (Proj.)		2007 (Proj.)
			Before MDRI	After MDRI 2/	After MDRI
PPG External debt	4,951	5,114	5,210	3,254	3,389
<i>of which owed to the Fund</i>	307	257	216	14	14
<i>of which owed to IDA</i>	1,749	1,822	1,852	95	151
<i>of which owed to AfDF</i>
NPV of PPG external debt to exports 3/	144	135	134	96	103
Debt service to exports 3/	18.6	16.0	13.9	13.5	9.5
PPG External debt to GDP (in percent)	56	52	50	31	30
NPV of PPG External debt to GDP (in percent)	35	35	35	25	25

1/ After HIPC assistance.

2/ Assuming delivery on January 1, 2006 for the Fund and the AfDF, and on July 1, 2006 for IDA.

3/ Exports of goods and services for the year under consideration.